

E-002/M-90-1159 ORDER AUTHORIZING THE BOOKING OF TRACKER AMOUNTS
AND PROVIDING FOR FUTURE CONSIDERATION OF CERTAIN CONCERNS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm
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Chair
Commissioner
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In the Matter of the Proposal of
Northern States Power Company's
Electric Utility for a Demand-
Side Management Incentive
Mechanism

ISSUE DATE: July 8, 1993

DOCKET NO. E-002/M-90-1159

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PROCEDURAL HISTORY

On December 18, 1990, Northern States Power Company (NSP or the Company) filed a proposal for an experimental demand-side management (DSM) incentive mechanism.¹ The proposal combined a bonus return on rate base concept with a strategy for compensating the Company for lost margins due to load management.

On March 19, 1991, the Commission issued its ORDER APPROVING PROPOSAL AND REQUIRING FURTHER FILINGS in this Docket. In that Order the Commission approved the DSM incentive mechanism proposed by NSP for a two year period. The Order also directed

¹ Demand-side management is a method of adjusting energy production and consumption by means of conservation measures and load management techniques. Utility rates are set in a manner which encourages utilities to increase sales between rate cases. Utilities lose their margin (profit and contribution to fixed costs) on units of energy which are conserved rather than sold. Utilities are also discouraged from demand-side investment by the fact that supply-side investments earn a rate of return on rate base while demand-side investments do not.

Recently, energy experts have increasingly advocated combining financial incentives with statutory conservation mandates such as the CIP program. The National Association of Utility Regulatory Commissioners (NARUC) recently adopted a resolution urging state commissions to consider and use incentives for electric least-cost utility planning.

NSP to 1) propose a performance-basis mechanism and a plan for evaluating the incentive program and 2) file an annual report on the incentive mechanism as part of its annual CIP tracker report.

On June 23, 1991, NSP filed 1) its proposed performance-basis mechanism and 2) its plan for evaluating the performance-basis mechanism.

On January 3, 1992, the Commission issued its ORDER APPROVING COST-EFFECTIVENESS, PERFORMANCE AND EVALUATION PLANS and also directed the Company to file an annual performance measurement evaluation.

On March 2, 1992, the Company filed 1) its first annual report on the results of applying the financial incentive mechanism and 2) its 1991 CIP tracker report. On April 1, 1992, the Company filed its first annual report evaluating the operation of the financial mechanism and its methods of measuring success in achieving demand side management goals.

On May 27, 1992, the Commission issued an Order approving the three filings and directing that in future years the Company file the three reports together on or before April 1.

On October 30, 1992, NSP requested that the Commission extend its approval of the DSM plan through December 31, 1993. NSP explained that it would use the extra year to evaluate fully the results of its incentive plan in 1992. NSP stated that based upon its extended review, it may propose a modified DSM mechanism for the second half of 1993 or 1994.

On December 21, 1992, the Commission issued an Order extending the Company's DSM incentive mechanism through December 31, 1993, as requested.

On April 1, 1993 as directed by the Commission's May 27, 1992 Order, NSP made a consolidated filing which contained 1) a DSM Incentive Cost Effectiveness and Performance Mechanism report on its conservation and load management projects, 2) its 1992 Electric Utility Conservation Cost Recovery Report, 3) an evaluation of its DSM Program Mechanism Filing, and 4) an evaluation of project impact measurement methods for DSM programs.

On May 17, 1993, the Minnesota Department of Public Service (the Department) and the Residential Utilities Division of the Office of the Attorney General (RUD-OAG) filed comments on these reports.

On June 10, 1993, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

The Commission continues to monitor the demand-side management incentive mechanism it authorized for NSP in the March 19, 1991 Order. The several reports required by the Commission in previous dockets, timely filed by the Company, and reviewed by the Commission in this Order give a good view of how the incentive mechanism is working. Together they establish the results of the incentive for 1992. On the basis of its review, the Commission accepts these reports and grants the Company authority to book certain amounts to the tracker. Particular comments regarding each report follow.

1. Cost Effectiveness and Performance Report

In this report required by the Commission's January 3, 1992 Order, NSP reported on how its conservation projects performed against goal in 1992. The Company reported that for 1992 it achieved 118 percent of its cost effectiveness goal and 116 percent of its kWh goal. The Company calculated that based on its approved incentive formula it qualified for a five percent return on equity (ROE) bonus for direct impact projects (\$183,225). For indirect impact projects, NSP reported that it achieved 78 percent of its weighted cost-effectiveness and performance goal, for an ROE bonus of 2.82 percent (\$13,078).

The Commission finds that NSP correctly applied the ROE bonus of five percent to direct impact projects, but achieved only 77.32 percent of its goal for indirect impact projects for a ROE bonus of 2.73 percent (\$12,660).

In its report, NSP also proposed booking \$1,133,146 to the CIP tracker, i.e. 50 percent of the 1992 interruptible discounts in excess of amounts built into the 1991 test year. The Company also recalculated its year-end tracker balance for 1991, and included a negative \$219,895 for load management discounts, i.e. 50 percent of load management discounts which were built into the 1991 test year but not achieved. The Commission finds that this treatment is proper.

2. Evaluation Reports

a. DSM Program Mechanism Filing

NSP's evaluation of its DSM Program Mechanism Filing was also required in the Commission's January 3, 1992 Order. It compared its 1992 program results with the average of the previous three years for kWh saved, expenditures, and percent of goal achieved. The Commission finds that this evaluation shows compliance with Commission requirements regarding the Company's incentive.

b. Project Impact Measurement Methods

The final report required in the Commission's January 3, 1992 Order was NSP's evaluation of its Project Impact Measurement Methods. In this report, NSP informed the Commission of its progress in measuring actual savings on individual projects. The Company indicated that it is planning revisions or improvements in measurement methods in several projects and undertaking a comprehensive C&I market assessment which will provide information to update impact estimates for DSM measures. The Commission finds that this evaluation shows compliance with Commission requirements regarding the Company's incentive.

3. Tracker Report

The fourth and final report submitted for review at this time was the Company's 1992 Conservation Cost Recovery Tracker Report which detailed the activity in all of the tracker elements for 1992. In this report, NSP showed a tracker balance at year end, with the inclusion of the incentives, of \$625,730. Except for the amount specifically authorized in this Order, the appropriateness of the tracker entries and any recovery of those amount will be examined in NSP's rate case (Docket No. E-002/GR-92-1185) and need not be commented on further here.

NSP's Future Incentive

If NSP wishes to continue to have a DSM financial incentive mechanism in place following the expiration of the currently approved mechanism on December 31, 1993, it will need to submit a proposal to continue, modify or replace that mechanism. At this point, criticisms of the Company's current incentive mechanism made by the RUD-OAG are more productively viewed as concerns relevant to NSP's next incentive mechanism. According to the RUD-OAG, there is a danger that the mechanism may fail to take into account the spontaneous adoption of DSM measures (DSM which would have been implemented even without an NSP program). This would result in forcing ratepayers to pay incentives for DSM which would have been adopted without the Company's program. Second, the RUD-OAG argued against an incentive that would create a bias in favor of one type of conservation whose results were easily quantifiable at the expense of another potentially more effective type. The RUD-OAG stated that it may be more appropriate to increase the focus on the design and evaluation of innovative indirect programs, such as community-based interventions, stimulation of development of super-efficient end use devices and media-based campaigns to educate and reform energy use.

The Commission finds merit in considering the issues raised by the RUD-OAG. To assure that this will happen, the Commission will direct NSP to address these issues in any filing it may make to continue, modify, or replace the current incentive.

ORDER

1. Northern States Power Company (NSP or the Company) is hereby authorized to book
 - a) \$341,359 to the tracker to represent the bonus earned and
 - b) \$1,133,146 to reflect recoverable load management discounts for 1992 under the financial incentive.
2. The two evaluations filed by the Company (one evaluating the DSM Program Mechanism Filing and the other evaluating its Project Impact Measurement Methods) are accepted.
3. In any filing to continue, modify or replace the current incentive, NSP shall address the following two issues:
 - a) whether the incentive mechanism should be and can be designed so that ratepayers do not pay incentives for conservation not directly caused by the utility and
 - b) whether an incentive should and can be designed which does not create biases against indirect and hybrid conservation programs.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

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